

CHAPTER: Fiscal Management		POLICY: Investments
		PAGES: 14
SUBJECT: Investment of County Funds		
RELATED POLICIES:	ENABLING RESOLUTION: #144-00 RESOLUTION DATE: 8/16/00 REVISIONS:	
DEPARTMENT OF PRIMARY RESPONSIBILITY: Finance		

I. Statement of Purpose

The Board of Sedgwick County Commissioners (“the Board”) has authority to invest all funds of Sedgwick County (“the County”) pursuant to Kansas Statutes Annotated 12-1675. The purpose of this investment policy is to identify the investment objectives of the Board and to establish a set of procedures to achieve the policy goals through these objectives. The objectives of this investment policy are as follows: Safety of Principal, Maintenance of Adequate Liquidity and Maximization of Earnings on the Investment Portfolio.

1. Policy Statement

It is the policy of the Board that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with legal and administrative guidelines and, to the maximum extent possible, at the highest rates obtainable at the time of investment.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as a viable and material revenue source for all operating and capital funds. The County’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

Investments shall be made with the primary objectives of:

- p Security of County funds and investments
- p Preservation of capital and protection of principal
- p Maintenance of sufficient liquidity to meet operating needs

- þ Diversification of investments to avoid unreasonable or avoidable risks
- þ Maximization of return on the portfolio

Earnings from investments will be used in a manner that will best serve the interests of the County and that will comply with Kansas statutes.

2. Application of Investment Policies

The investment policies adopted by the Board shall apply uniformly to all employees, officials, departments, agencies, boards, commissions, representatives and authorized agents in the performance of their official duties and to the processing and management of all investment transactions on behalf of the Board. These policies shall apply to all funds handled and managed by the County.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner seeking to ensure the preservation of capital in the overall portfolio. The objective will be to reduce credit risk and interest rate risk.

a. Credit Risk

The County will minimize credit risk, the risk of loss due to the failure of the security issuer or ~~banker~~,
 þ Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the
 County will do business

- þ Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

The County will minimize the risk that the market value of securities in the portfolio will decline ~~due~~ the changes in general interest rates by:

- þ Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby minimizing the need to sell securities on the open market prior to maturity
- þ Investing idle funds primarily in securities with maturities of one year or less or the Kansas Municipal Investment Pool (MIP).
- þ Limiting investments to a maximum stated maturity of four years.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the investment portfolio will contain securities with active secondary resale markets. A portion of the portfolio may be placed in investments which offer one-day liquidity for short-term funds, such as repurchase agreements or the Kansas Municipal Investment Poo

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is a lower priority than the safety and liquidity objectives described above.

III. Standards of Care

1. *Prudence*

The standard of prudence to be used by investment officials shall be the “prudent person” investment rule and shall be applied to the management of the entire portfolio. The rule states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could be perceived as a conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the County.

3. *Delegation of Authority*

Responsibility for the operation of the investment program is delegated to the Chief Financial Officer, who shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer. The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

4. *Competitive Placement of Funds*

All investments of the County should be bid to insure competitive pricing. The exception to this may be when purchasing new issue government agency securities when the price is the same through all brokers and the issuing agency pays the selling commission directly to the broker. In this case the County may place orders with depository institutions located in the County. In addition, investments with the Kansas Investment Pool or money market mutual funds are not considered biddable securities.

IV. Safekeeping and Custody

1. *Authorized Financial Dealers and Institutions*

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1.

All financial institutions and broker/dealers who desire to become qualified for investment transactions shall provide the following:

- þ Their most recent audited financial statements
- þ Proof of National Association of Securities Dealer (NASD) certification
- þ Proof of state registration with the Kansas Securities Commission
- þ Certification of having read, understood and agreed to comply with this policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Chief Financial Officer.

2. *Internal Controls*

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the investments of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The investment program shall be subject to an annual independent review by an external auditor to assure adequate internal controls. The internal controls shall address the following points:

- þ Control of collusion
- þ Separation of transaction authority from accounting and record keeping
- þ Custodial safekeeping
- þ Avoidance of physical delivery securities other than certificates of deposit
- þ Clear delegation of authority to subordinate staff members
- þ Written confirmation of transactions for investments and wire transfers
- þ Development of a wire transfer agreement with the lead bank and third-party custodian

3. *Delivery vs. Payment*

All trades will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution simultaneously with the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts, held in the County’s name.

4. *Safekeeping of Securities*

a. To protect against potential fraud or embezzlement, the investments of the County shall be secured through third-party custody and safekeeping procedures. Ownership shall be protected through third-party custodial safekeeping. Safekeeping procedures shall be reviewed annually by the County’s external auditor.

b. The County shall contract with a single financial institution for custodial and safekeeping services for the County's investment portfolio.

c. All securities owned by the County shall be held by a single safekeeping agent in the name of the County of Sedgwick. The exception to this may be when participating in Tri-party repurchase agreements where the broker and the County jointly select a safekeeping agent.

d. Security for deposits will be held in a third-party institution and registered jointly to the County and to the depository financial institution as required by the Kansas Statutes Annotated ("K.S.A.") 9-1405.

e. Securities which serve as security for repurchase agreements must be delivered to a third-party custodian with which the County has established a third-party safekeeping agreement.

f. The authorization to release County securities and transfer County funds will be accomplished by authorized cash management personnel.

g. Verification of collateral will be part of the County's annual independent audit.

V. Suitable and Authorized Investments

Idle Funds

The investments authorized for idle funds under this policy shall be in conformance with K.S.A. 12-1675, K.S.A. 12-1677b and any other applicable statutes and amendments thereto. The following list represents the range of investments which the County will consider and shall be authorized for the investment of funds.

a. United States Treasury and Agency Securities

The County may invest in obligations of the United States Government or any agency thereof insured to principal and interest by the United States or any agency thereof and obligations and securities of United States-sponsored enterprises that under federal law may be accepted as security for public funds, except that none of the County's funds may be invested in government-agency-issued mortgage-backed securities.

b. Repurchase Agreements (Repo)

The County may invest in repurchase agreements including tri-party agreements between the County and commercial banks, state or federally chartered savings and loan associations, or federally chartered savings banks which have offices located in the County or approved government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase Treasury securities while simultaneously agreeing to resell these securities at a predetermined price and date.

c. Collateralized Public Deposits (Certificates of Deposit)

The County may invest in interest-bearing time deposit instruments issued by financial institutions that have acceptable credit ratings and are authorized by Kansas statutes. The certificates of deposit are required to be backed by collateral in the form of acceptable securities having a value equal to or greater than 102% of the funds deposited by the County. The collateral must be placed with the County's safekeeping agent in a sub-custodial account. Also acceptable is the use of surety bonds issued by an insurance company with an investment grade rating that is qualified to do business in the state of Kansas.

d. Temporary Notes

The County may invest in temporary notes issued by the County.

e. Kansas Municipal Investment Pool

The County may invest in a pool of funds managed by and under the authority of the Kansas Pool Money Investment Board, in accordance with Kansas statutes.

f. Bank Trust Departments with Commercial Banks

The County may invest with trust departments of commercial banks with offices located in the County with trust companies which have contracted to provide trust services under the provisions of K.S.A. 9-2107, and amendments thereto, which have offices located in Sedgwick County. These accounts will be secured as provided for under K.S.A. 9-1402, and amendments thereto. Authorized investments in these pools will be subject to the same terms, conditions and limitations as are applicable to the Kansas Municipal Investment Pool.

Bond Proceeds

The investments authorized for the proceeds of bonds (other than industrial revenue bonds for which the County is merely a conduit issuer) or temporary notes under this policy shall be in conformance with K.S.A. 10-131 and amendments thereto. The following list represents the range of investments which the County will consider and which shall be authorized for the investment of bond proceeds.

a. Investments authorized for idle funds in K.S.A. 12-1675 and outlined above.

b. Direct obligations of the United States Government or any agency thereof.

c. Obligations of Fannie Mae, Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation.

d. Repurchase agreements secured by direct obligations of the United States Government or any agency thereof or obligations of Fannie Mae, Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation.

e. Investment agreements with or other obligations of a financial institution the obligations of which at the time of investment are rated in either of the three highest rating categories by Moody's Investors Service or Standard and Poor's Ratings Group.

f. Investment in shares or units of a money market fund or trust, the portfolio of which is comprised entirely of securities in direct obligations of the U.S. Government or any agency thereof or obligations of Fannie Mae, Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation.

g. Receipts evidencing ownership interests in securities or portions thereof in direct obligations of the United States Government or any agency thereof or obligations of Fannie Mae, Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation.

h. Municipal bonds or other obligations issued by any municipality of the State of Kansas as defined in K.S.A. 10-1101 and amendments thereto which are general obligations of the municipality issuing the same.

I. Bonds of any municipality of the State of Kansas as defined in K.S.A. 10-1101 and amendments thereto which have been refunded in advance of their maturity and are fully secured as to payment of principal and interest thereon by deposit in trust, under escrow agreement with a bank, or securities in direct obligations of the United States Government or any agency thereof or obligations of Fannie Mae, Federal Home Loan Banks or the Federal Home Loan Mortgage Corporation.

j. Sedgwick County's temporary notes issued pursuant to K.S.A. 10-123 and amendments thereto.

Collateral Requirements

To qualify as a depository under K.S.A. 9-1401 et seq., a bank, trust company, savings and loan association, or savings bank must collateralize County deposits (the amount of money on deposit with an institution at any given time) by either securities or corporate surety bonds.

1. Securities

The financial institution may pledge or assign for the County's benefit sufficient securities, the market value of which is at least 102% of the total deposits. Peak period collateral agreements permitted under K.S.A. 9-1403 and mortgages as contemplated by K.S.A. 9-1402 are not to be accepted by the County. The allowable securities acceptable to the County are limited to those institutions which are suitable and authorized investments of the County as identified in Section V herein having maturities of less than the maximum number of years specified in Section VI-3. Allowable securities are also limited to:

a. Direct obligations of, or obligations insured by, the U.S. Government or any agency thereof.

b. Obligations and securities of U.S. government-sponsored corporations which, under federal law, may be accepted as security for public funds.

c. Bonds of any Kansas municipality which have been refunded and are secured by U.S. obligations.

d. Bonds of the State of Kansas.

e. General obligation bonds of any Kansas municipality.

f. General obligation temporary notes of Sedgwick County Kansas.

2. Corporate Surety Bond

The financial institution may provide a corporate surety bond of a surety corporation authorized to do business in Kansas in an amount equal to the amount on deposit.

VI. Investment Parameters

1. Diversification

The investments shall be diversified by:

- b. The following maximum limits, by instrument, are established for the County's total investment portfolio:

The limit on repurchase agreements and Kansas MIP deposits may not exceed 75% of the portfolio ~~and~~ ^{after} of forty-five (45) days during each of the June and December tax seasons.

- ## 2. Portfolios

The County's funds shall be separated into two portfolios for efficient investment management. The short term portfolio is defined as maturities less than 1 year, and the long term portfolio as maturities 1 year or greater. Funds will be allocated based on the cash flow needs of the County.

The County shall attempt to match its investments with anticipated cash flow requirements. The County will not directly invest in securities with stated maturities more than four (4) years from the date of purchase, in accordance with the Kansas statutes.

The sale of securities before maturity shall require the prior approval of the County Controller, Chief Financial Officer, or County Manager, any of whom may approve the sale based on the following reasons:

- a. A security with declining credit may be sold early to minimize loss of principal.
- b. A security swap would improve the quality, yield, or target maturity of the portfolio.
- c. Liquidity needs require that the security be sold.

VII. Reporting

1. Methods

The investment officer shall prepare a weekly investment report summarizing the week's investment activities. This report shall be provided to key County financial officers.

The investment officer shall also prepare a detailed quarterly report, including a management summary and analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to this investment policy. The report will be provided to the Board of County Commissioners, County Manager, and key County financial officers. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period.
- b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year maturity that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- c. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- d. Listing of investments by maturity date.
- e. Percentage of the total portfolio which each type of investment represents.
- f. Percentage of the total portfolio which each institution holds.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The investment objective is for the short term portfolio to exceed the 91-day U.S. Treasury Bill and the long term portfolio to exceed the 1-year U.S. Treasury Bill average rate of return, the benchmark for risk-free investment transactions.

3. Marking to Market

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least monthly. The market values of all securities in the portfolio will be obtained from a reputable and independent source. The report will include the market value, book value and unrealized gains or losses of securities in the portfolio.

4. Safekeeping/Custodian Reports

The safekeeping agent shall prepare a holdings report and a transaction summary report monthly. In addition, the safekeeping agent shall value collateral securities on a weekly basis and report values for each bank sub-custodial account.

VIII. Policy Considerations

1. *Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy. There will be a transition period of 9 months from the date of the adoption of this policy to bring the CD holdings percentage into compliance with the policy. The policy states that CD's comprise a maximum of 25 % of the total portfolio value. In order to achieve this level, a reduction in CD holdings will be made based on the following schedule. The established schedule stipulates that CD's will represent the defined percentages of the total portfolio value as specified: within 3 months CD's will constitute no more than 65%, within 6 months CD's will constitute no more than 45%, and within 9 months CD's will constitute no more than 25%. The policy allows each bank to hold up to 60% of the total portfolio value invested in CD's. This will be brought into compliance within the same 9 month period.

2. *Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the Board.

Appendix: Glossary of Terms

The following is a glossary of key investing terms which appear in Sedgwick County's Investment Policy.

Agency Securities--A debt security issued by a federal agency. Federal agencies are backed by the full faith and credit of the U.S. Government.

Appreciation--The increase in value of an asset.

Broker--A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money.

Cash Flow--Cash receipts minus disbursements from a given asset, or group of assets, for a given period. An analysis of the movement of cash through a venture as contrasted with the earnings of the venture.

Certificate of Deposit--A time deposit with a specific maturity evidenced by a certificate.

Collateralization--Process by which a borrower pledges securities or deposits for the purpose of securing the repayment of a loan and/or security.

Collusion--A secret agreement between two or more persons for a fraudulent purpose.

Commercial Bank--A bank, the principal functions of which are to receive demand deposits and to make short-term loans.

Commercial paper--An unsecured promissory note with a fixed maturity of no more than 270 days and is normally sold at a discount.

Corporate Surety Bond--A contractual arrangement between the surety, the principal and obligee whereby the surety agrees to protect the obligee if the principal defaults in performing the principal's contractual obligations. The bond is the instrument which binds the surety.

Cost--An amount paid or required in payment for a purchase of an investment.

Credit Risk--The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Demand Deposit--A bank deposit that can be withdrawn by the depositor immediately and without advance notice.

Depository Financial Institution(Depository)--The place where a deposit is placed and kept.

Depository Security--Collateral pledged by a financial institution to guarantee deposits on hand which exceed depository insurance.

Diversification--A process of investing assets among a range of security types by sector, maturity and quality rating.

Delivery Versus Payment (DVP)--A type of securities transaction in which the purchaser pays for the securities when they are delivered to either the purchaser or his/her custodian.

Fannie Mae--Fannie Mae (formerly the Federal National Mortgage Association) is a private stockholder-owned corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. Fannie Mae's securities are also highly liquid and are widely accepted. Fannie Mae assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Home Loan Bank (FHLB)--Government-sponsored wholesale banks which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing-related assets of its members who must purchase stock in their district Bank.

Federal Home Loan Mortgage Corporation (FHLMC)--A federal agency which purchases first mortgages from members of the Federal Reserve System and the Federal Home Loan Bank System. Commonly called "Freddie Mac."

General Obligation (G.O.) Bonds or Notes--Bonds or notes secured by the "full faith and credit" of the issuing government and backed by revenues from its taxing power.

Governmental Accounting Standards Board (GASB)--The authoritative accounting and financial reporting standard-setting body for government entities.

Idle Funds--Money which is not immediately required for the purposes for which it was collected or received.

Industrial Revenue Bonds--A specific type of revenue bond whose proceeds are used to finance the purchase or construction of facilities or equipment to be leased to a private corporation. The bonds are backed by the credit of the corporation.

Interest Rate--The annual rate of interest received by an investor from the issuer of fixed-income securities. The percentage of an amount of money which is paid for its use for a specified time.

Interest Rate Risk--The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls--An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Investment--Commitment of money to gain profit or interest as by purchasing securities.

Investment Agreements--An agreement with a financial institution to borrow public funds subject to certain terms and conditions regarding collateralization, liquidity and interest rates.

Kansas Municipal Investment Pool (MIP)--The State of Kansas offers a Local Government Investment Pool (LGIP) entitled "State of Kansas Municipal Investment Pool," which is governed by the State of Kansas Pooled Money Investment Board.

Kansas Statutes--A written law enacted by the Kansas State Legislature.

Liquidity--Refers to the ability of an instrument to be converted into cash rapidly without substantial loss of value.

Market Value--The price at which a security is trading and could be purchased or sold on a given day.

Marking to Market--The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Maturity--The length of time an investment is held.

Maturity Date--The date on which payment of a financial obligation is due. The final stated maturity date is the date on which the issuer must retire a bond and pay the face value to the bondholder.

Money Market Fund--Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds.)

Municipal Note--Short-term notes issued by municipalities in anticipation of tax receipts, proceeds from a bond issue, or other revenues.

Portfolio--Collection of securities held by an investor.

Principal--(1) The face amount or par value of a debt security. (2) One who acts as a dealer buying and selling for his own account.

Primary Dealer--Government securities dealers included in the "List of Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York (NY Fed)" that submit daily reports of market activity and positions and monthly financial statements to the NY Fed and are subject to its informal oversight. Primary dealers include SEC-registered securities broker-dealers, banks and a few unregulated firms.

Realized gain or loss--The amount of realized gain from the sale or other disposition of property is the excess of the amount realized over the adjusted basis of the property; the amount of realized loss is the excess of the property's adjusted basis over the amount realized.

Repurchase agreement (Repo)--An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price at a specified later date.

Revenue Bonds--A municipal bond secured by revenue from tolls, user charges, or rents derived from the facility financed.

Safekeeping--The holding of securities by a financial institution on behalf of the securities owners.

Safety--Freedom from risk.

Securities--Documents that can be traded for value; an instrument of ownership or debt used to finance government and corporate entities.

Securities Swap--Trading one asset for another.

Time Deposits--Another term for a savings account or certificate of deposit in a commercial bank.

Trust Department--A department of a bank which is authorized to serve in a fiduciary capacity.

United States Government Securities (Treasuries)--Bonds, notes, treasury bills or other securities constituting direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed as to the full and timely payment by the United States of America.

Unrealized Gain or Loss--A profit or loss that has not yet materialized. An example of an unrealized profit would be an appreciated stock in which the price has increased but, if the stock is not sold, the profit is considered an unrealized gain.

Yield--The current rate of return on an investment security generally expressed as a percentage of the security's current price.